

March 9, 2016

The Big Picture

- The major Asian stock indices closed mixed overnight.
- Emerging Market countries in S.E. Asia continue to lead the charge higher with Thailand adding +1.17% taking its YTD gain to +7.97%.
- On the other hand, Japan's Nikkei index fell another -0.84% taking its YTD loss down to -12.56% and China's Shanghai composite fared even worse dropping -1.34% and is down -19.12% in 2016.
- Most of the major European stock indices are up over +1% in mid-day trading recovering some of their losses from earlier in the week.
- S&P 500 futures also indicate a higher open trying to recover their recent losses as well.
- There was little new economic data of interest released out of the Far East as the market still tries digest the data released on Monday night showing Chinese exports dropping -25.4% in February.
- That report poured some cold water over the bull's heads who were hoping the worst of the negative economic data from China was behind it.
- Tomorrow's European Central Bank's policy announcement could be more cold water for the markets if Mario Draghi does not deliver enough, as he failed to do so did back in December.
- Global stocks have been rallying the last few weeks with many bulls indicating the worst is over.
- However, we want to stress that it is pure speculation at this point to think the worst is behind us because we continue to measure corporate earnings and sales expectations coming down at increasing rates.
- Over the next few weeks, we will be focusing on the results, and more importantly the subsequent estimate revisions, for companies reporting February quarter ends including, but not limited to, Accenture, Adobe, Carnival, Darden Restaurants, FedEx, General Mills, Lennar, Nike, Oracle, and Paychex.
- If we begin to collectively see their estimates reduced by a little less than they were last quarter and the quarter before that, then this would be the first sign the worst of the negative estimate revisions are behind us.
- Until then, stay modestly underweight stocks.

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4Q 2015 Earnings Scorecard, as of 8:30 AM ET on March 9, 2016

<u>Sector</u>	<u>EPS Growth</u>	<u>EPS Surprise</u>	<u>Exceeded</u>	<u>Matched</u>	<u>Missed</u>	<u>Reported</u>	<u>% Reported</u>
Telecom	28.89%	9.43%	60%	40%	0%	5	100%
Health Care	9.97%	3.52%	71%	15%	15%	55	98%
Consumer Discretionary	6.09%	4.52%	69%	12%	19%	78	94%
Consumer Staples	4.11%	3.88%	66%	8%	26%	38	100%
Information Technology	3.99%	7.36%	79%	15%	6%	67	100%
Financials	0.99%	2.77%	67%	9%	23%	90	100%
Industrials	-0.07%	2.78%	71%	8%	22%	65	100%
Utilities	-0.82%	3.16%	55%	14%	31%	29	100%
Materials	-4.77%	6.37%	70%	11%	19%	27	100%
Energy	-69.03%	65.98%	68%	5%	28%	40	100%
S&P 500	-1.19%	4.92%	69%	11%	20%	494	99%

Source: The Earnings Scout

4Q 2015 Sales Scorecard, as of 8:30 AM ET on March 9, 2016

<u>Sector</u>	<u>Sales Growth</u>	<u>Sales Surprise</u>	<u>Exceeded</u>	<u>Missed</u>	<u>Reported</u>	<u>Total</u>	<u>% Reported</u>
Telecom	11.63%	-0.51%	40%	60%	5	5	100%
Health Care	10.47%	0.65%	67%	33%	55	56	98%
Consumer Discretionary	4.31%	0.47%	41%	59%	78	83	94%
Information Technology	0.31%	0.34%	60%	40%	67	67	100%
Consumer Staples	0.06%	-1.38%	45%	55%	38	38	100%
Financials	-0.46%	2.06%	64%	36%	90	90	100%
Industrials	-4.05%	-1.57%	40%	60%	65	65	100%
Utilities	-10.17%	-13.07%	17%	83%	29	29	100%
Materials	-14.93%	-2.30%	22%	78%	27	27	100%
Energy	-35.43%	2.56%	35%	65%	40	40	100%
S&P 500	-3.29%	-0.26%	48%	52%	494	500	99%

Source: The Earnings Scout



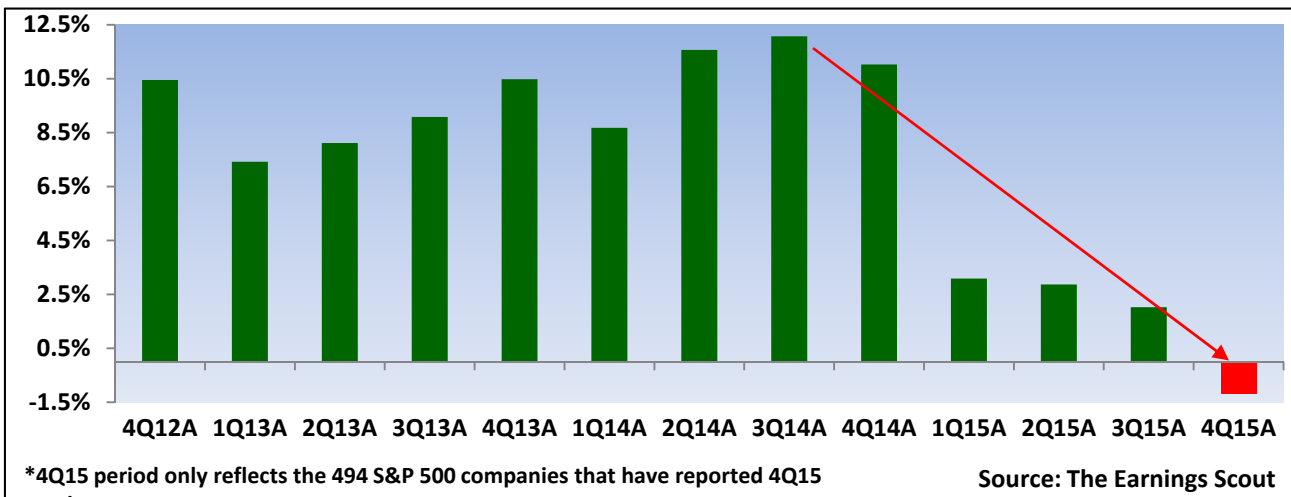
How do the 4Q 2015 results compare to prior periods?

Period	EPS Growth	Sales Growth	Avg EPS Surprise	Exceeded	Matched	Missed	Sales Beats	Sales Misses
*4Q15A	-1.2%	-3.3%	4.9%	69%	11%	20%	48%	52%
3Q15A	2.0%	-3.3%	4.6%	69%	8%	23%	44%	56%
2Q15A	2.9%	-2.9%	4.7%	72%	9%	19%	50%	50%
1Q15A	3.1%	-2.6%	5.1%	69%	9%	22%	47%	53%
4Q14A	11.0%	2.5%	4.5%	70%	12%	18%	60%	40%
3Q14A	12.1%	5.0%	4.5%	73%	10%	17%	61%	39%
3 Yr Avg.	8.1%	2.1%	4.6%	69%	10%	20%	56%	44%

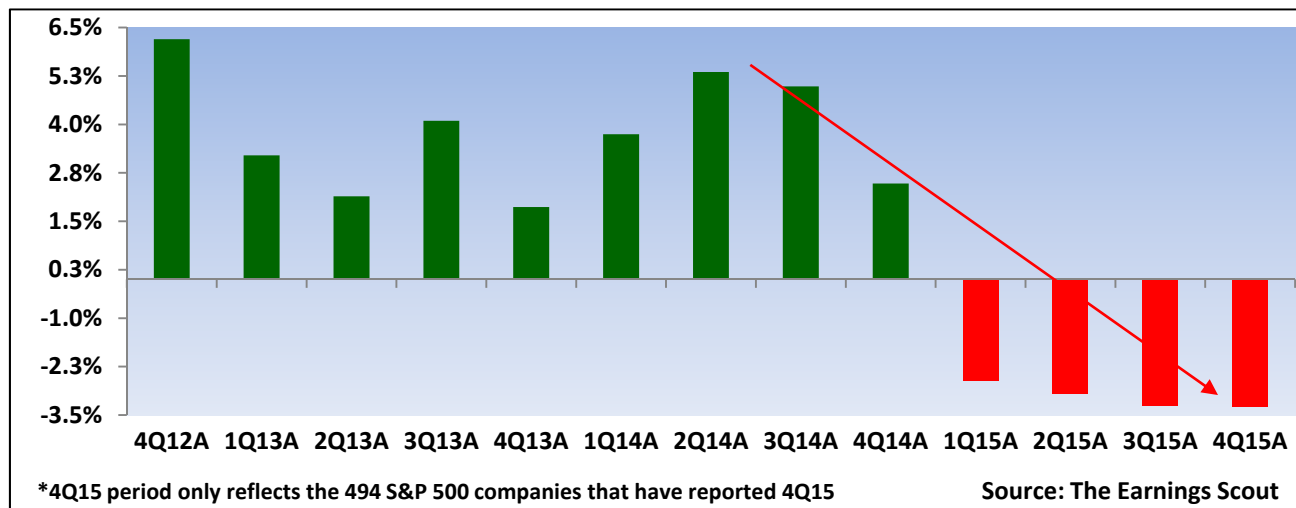
Source: The Earnings Scout

*4Q15 period only reflects the 494 S&P 500 companies that have reported 4Q15

Actual EPS growth since 2012



Actual Sales growth since 2012



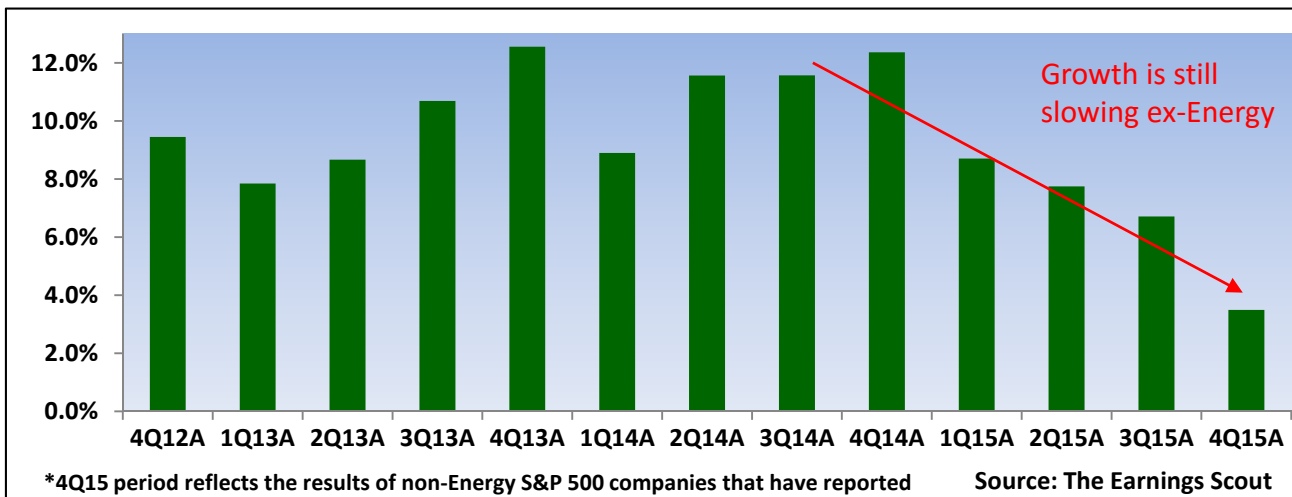
How do the 4Q 2015 results compare to prior periods if the Energy sector is excluded?

Period	EPS Growth (ex-Energy)	Sales Growth	Avg EPS Surprise	Exceeded	Matched	Missed	Sales Beats	Sales Misses
*4Q15A	3.5%	1.2%	4.1%	70%	11%	19%	49%	51%
3Q15A	6.7%	2.1%	4.0%	68%	9%	23%	44%	56%
2Q15A	7.8%	2.0%	4.3%	73%	10%	18%	50%	50%
1Q15A	8.7%	2.7%	4.6%	69%	10%	21%	47%	53%
4Q14A	12.4%	5.2%	3.9%	70%	13%	17%	61%	39%
3Q14A	11.6%	6.2%	4.1%	73%	10%	17%	61%	39%
3 Yr Avg.	9.7%	4.1%	4.3%	69%	11%	20%	56%	44%

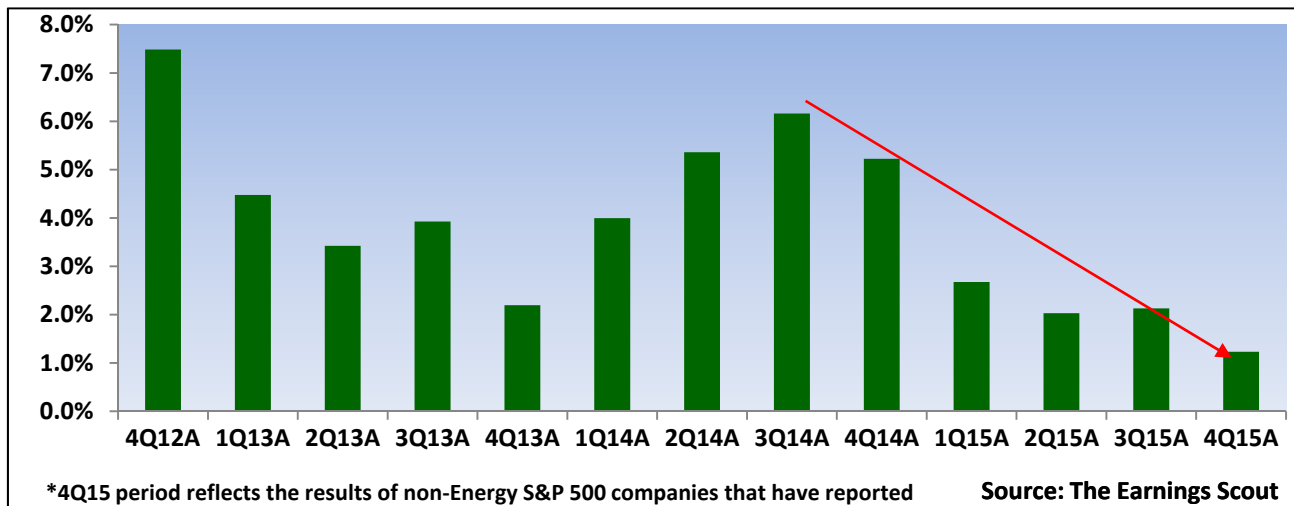
Source: The Earnings Scout

*4Q15 period reflects the results of non-Energy companies that have reported 4Q15

Actual EPS growth, Ex-Energy, since 2012



Actual Sales growth, Ex-Energy, since 2012



The Earnings Scout Buys of the Week

Company	Ticker	Industry	ES Rating	ES Indicator	Market Cap (\$mil)
Alibaba Group	BABA	Internet Software & Services	Strong Buy	99	\$178,558
Federated Investors	FII	Asset Management & Custody Banks	Buy	95	\$2,878
Ford Motor	F	Automobile Manufacturers	Buy	95	\$52,517
GlaxoSmithKline	GSK	Pharmaceuticals	Strong Buy	99	\$96,634
Hormel Foods	HRL	Packaged Foods & Meats	Buy	82	\$23,152
Johnson & Johnson	JNJ	Pharmaceuticals	Buy	83	\$293,099

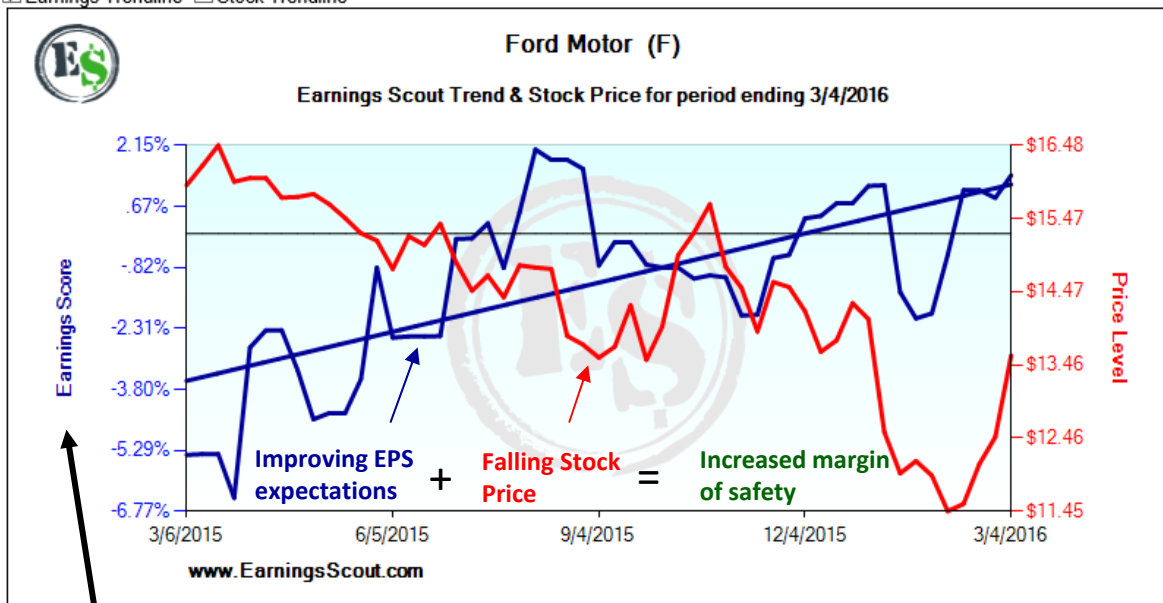
The ES Indicator is derived from our proprietary multifactor model that identifies companies likely to have the best & worst EPS momentum over the next year that have not yet been fully accounted for by the market. ES Indicator scores range from 1=worst to 100 best.

Over the past 5 and 20 years when our indicator score rises above 80 for any given company, its stock price outperformed its sector and industry benchmarks 65% of the time over the next 18 month time frame.

Why is Ford one of the companies on our “Buys of the Week” list?

ES Trend: **Improving** Stock Return: **-14.69%** ES Volatility: **4.261** ES Correlation: **-0.585**
 ES Indicator: **95** ES Rating: **Buy** Wkly Indicator Chg: **0** Industry: **Automobile Manufacturers**
 Stock Price: **\$13.59** Market Cap(mil): **\$53,946** PE F1 Est: **6.38** Est 3-5 Year EPS Growth: **9.12%** Dividend Yield: **4.81%**

Earnings Trendline Stock Trendline



Earnings Score: Our proprietary measurement of multiple periods of EPS estimate changes for Ford. Positive scores indicate Ford’s overall EPS estimates are rising. Negative scores suggest they are going down. The Earnings Score itself will indicate the magnitude of those revisions. The straight blue line drawn in the chart is the slope of all of our collective Earnings Scores. It shows how Ford’s earnings expectations have been improving over the past year, while its share price has fallen. Therefore, there is an increased margin of safety for Ford’s stock because weakness, which may not occur, is already discounted into its price.

